



NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

Legislative Retirement Note

Short Title: Felony Forfeiture Changes/Retirement.
Bill Number: Senate Bill 398 (First Edition)
Sponsor(s): Senators Johnson and Wells

SUMMARY TABLE

ACTUARIAL IMPACT OF S.B. 398, V. 1 (\$ in thousands)

	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>
State Impact					
General Fund	-	-	-	-	-
Highway Fund	-	-	-	-	-
Other/Receipts	-	-	-	-	-
TOTAL STATE EXPENDITURES	-	-	-	-	-
Local Impact					
Local Governments	-	-	-	-	-
TOTAL LOCAL EXPENDITURES	-	-	-	-	-

ACTUARIAL IMPACT SUMMARY

All sections have potential actuarial impacts on retirement systems.

Systems Affected: Teachers' and State Employees' Retirement System (TSERS), Local Governmental Employees' Retirement System (LGERS), Consolidated Judicial Retirement System (CJRS), Legislative Retirement System (LRS), National Guard Pension Fund (NGPF), and Disability Income Plan (DIP)

Section 1: Clarifies felony forfeiture of pension benefits when a plea bargain results in a finding of guilt. This section also provides for forfeiture of DIP and NGPF benefits in a manner consistent with other benefit programs. Both Cavanaugh Macdonald, the actuary for the retirement systems, and Hartman & Associates, the actuary for the General Assembly, estimate that this section will have no material impact on the contribution rates or liabilities of TSERS, LGERS, CJRS, LRS, NGPF, or DIP.

Section 2: Limits pension payments to the amount of the member’s contributions plus regular interest if a retiree is under indictment for a job-related felony. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS, LGERS, CJRS, or LRS.

Section 3: Provides a mechanism for forfeiture of the pension of a judge or justice who has been removed from office by the General Assembly or State Supreme Court for reasons other than incapacity. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of CJRS.

Section 4: Provides the Department of State Treasurer access to certain records when performing a compliance or fraud review. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of any of the systems.

ASSUMPTIONS AND METHODOLOGY

The cost estimates of the actuaries are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2017 actuarial valuations. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2017 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>LRS</u>
Active Members				
Count	304,554	128,779	562	170
General Fund Compensation	\$11,005M		\$76M	\$4M
Valuation Compensation (Total)	\$15,059M	\$6,453M	\$76M	\$4M
Average Age	45	44	55	60
Average Service	10.8	10.1	13.5	6.3
Inactive Members				
Count	160,087	68,243	44	95
Retired Members				
Count	215,008	68,766	682	295
Annual Benefits	\$4,521M	\$1,324M	\$43M	\$2M
Average Age	71	69	73	77
New Retirees During 2018	11,200	4,400	30	2

Financial Statistics (as of 12/31/2017 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>LRS</u>
Accrued Liability (AL)	\$79,209M	\$27,746M	\$682M	\$30M
Actuarial Value of Assets (AVA)	\$69,568M	\$25,521M	\$587M	\$28M
Market Value of Assets (MVA)	\$70,608M	\$25,918M	\$596M	\$29M
Unfunded Accrued Liability (AL - AVA)	\$9,641M	\$2,225M	\$95M	\$2M

Funded Status (AVA / AL)	88%	92%	87%	93%
Required Employer Contribution for FY 2019-20 (as % of pay)	12.97%	8.00% (non-LEO)	33.60%	26.46%
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 8.10%	3.50% - 7.75%	3.50% - 5.50%	5.50%
Assumed Rate of Investment Return: 7.00%				
Cost Method: Entry Age Normal				
Amortization: 12 year, closed, flat dollar				
Demographic assumptions based on 2010-2014 experience, RP-2014 mortality, and projection of future mortality improvement with scale MP-2015				

Benefit Provisions				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>LRS</u>
Formula	1.82% x Service x 4 Year Avg Pay	1.85% x Service x 4 Year Avg Pay	3.02% to 4.02% x Service x Final Pay	4.02% x Service x Highest Pay
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5	Any/30; 60/25; 65 (55 for LEO)/5	50/24; 65/5	65/5
Employee contribution (as % of pay)	6%	6%	6%	7%

Further detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from the Fiscal Research Division.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

Cavanaugh Macdonald Consulting, LLC, "Felony Forfeiture Changes/Retirement – Senate Bill 398", April 3, 2019, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "Senate Bill 398: An Act Prohibiting Receipt of Benefits From the CJRS for Judges Who Have Been Impeached or Removed From Office, to Apply Felony Forfeiture Provisions to the National Guard Pension Fund and Disability Income Plan, to Amend Felony Forfeiture Statutes, and to Provide for Compliance and Fraud Reviews", April 2, 2019, original of which is on file in the General Assembly's Fiscal Research Division.

LEGISLATIVE ACTUARIAL NOTE – PURPOSE AND LIMITATIONS

This document is an official actuarial analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described above. This document only addresses sections of the bill that have projected direct actuarial impacts on State or local government retirement systems and does not address sections that have no projected actuarial impacts.

CONTACT INFORMATION

Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

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